

NEOUCOM FOUNDATION

FINANCIAL REPORT

JUNE 30, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees
Northeastern Ohio Universities College of Medicine Foundation (NEOUCOM Foundation)
Rootstown, Ohio

We have reviewed the independent auditor's report of the Northeastern Ohio Universities College of Medicine Foundation (NEOUCOM Foundation), Portage County, prepared by Hausser & Taylor LLP, for the audit period July 1, 1999 through June 30, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northeastern Ohio Universities College of Medicine Foundation (NEOUCOM Foundation) is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

March 23, 2001

NEOUCOM FOUNDATION

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Independent Auditors' Report

Board of Trustees
NEOUCOM Foundation

We have audited the accompanying statement of financial position of NEOUCOM Foundation as of June 30, 2000, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NEOUCOM Foundation as of June 30, 2000 and the changes in net assets and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 4, 2000, on our consideration of NEOUCOM Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Hausser & Taylor LLP

Cleveland, Ohio
November 4, 2000

NEUCOM FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2000

With Comparative Totals at June 30, 1999

ASSETS	Total 6-30-00	Total 6-30-99
Assets		
Current assets		
Cash & equivalents	\$ 1,149,141	\$ 2,194,076
Accrued interest receivable	56,180	43,996
Other receivables	15,410	23,094
Pledges receivable (Footnote 2)	174,732	582,808
Assets restricted for custodian funds	43,866	65,434
Total current assets	<u>1,439,329</u>	<u>2,909,408</u>
Long-term assets		
Pledges receivable (Footnote 2)	104,050	276,752
Investments (Footnote 3)	4,312,202	1,931,335
Student notes receivable (Footnote 4)	429,419	375,259
Total long-term assets	<u>4,845,671</u>	<u>2,583,346</u>
Total assets	<u>\$ 6,285,000</u>	<u>\$ 5,492,754</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accrued liabilities	253,445	59,329
Deposits held in custody for others	43,866	65,434
Total current liabilities	<u>297,311</u>	<u>124,763</u>
Long-term liabilities		
Annuity obligations (Footnote 5)	32,552	30,162
Total liabilities	<u>329,863</u>	<u>154,925</u>
Net assets		
Unrestricted		
Undesignated	769,848	580,384
Designated by the Board (Footnote 6)	91,559	83,911
Total unrestricted	<u>861,407</u>	<u>664,295</u>
Temporarily restricted (Footnote 7)	<u>2,155,325</u>	<u>2,717,646</u>
Permanently restricted (Footnote 8)		
Loan funds	519,970	479,627
Endowment funds	2,343,106	1,407,190
Annuity and life income funds	75,329	69,071
Total permanently restricted	<u>2,938,405</u>	<u>1,955,888</u>
Total net assets	<u>5,955,137</u>	<u>5,337,829</u>
Total liabilities and net assets	<u>\$ 6,285,000</u>	<u>\$ 5,492,754</u>

The accompanying notes to the financial statements are in integral part of this statement.

NEOUCOM FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2000

With Comparative Totals for the Year Ended June 30, 1999

	Operating Funds			Permanently Restricted	Total All Funds 2000	Total All Funds 1999
	Unrestricted	Temporarily Restricted	Total Operating			
CONTRIBUTIONS, GAINS, AND OTHER SUPPORT						
Contributions	\$ 308,605	249,129	557,734	775,745	\$ 1,333,479	\$ 965,794
In-kind support from NEOUCOM	341,206		341,206		341,206	427,695
Total contributions	<u>649,811</u>	<u>249,129</u>	<u>898,940</u>	<u>775,745</u>	<u>1,674,685</u>	<u>1,393,489</u>
Investment income						
Interest and dividend income	119,209	24,565	143,774	51,146	194,920	186,258
Realized gain on sale of investments	-	31,917	31,917	52,891	84,808	183,106
Unrealized appreciation of investments	116,590	2,152	118,742	(3,180)	115,562	(28,070)
Total investment income	<u>235,799</u>	<u>58,634</u>	<u>294,433</u>	<u>100,857</u>	<u>395,290</u>	<u>341,294</u>
Net assets released from restrictions	761,778	(761,778)	-		-	-
Net assets reclassified by donors		(108,306)	(108,306)	108,306	-	-
Total contributions, gains, and other support	<u>1,647,388</u>	<u>(562,321)</u>	<u>1,085,067</u>	<u>984,908</u>	<u>2,069,975</u>	<u>1,734,783</u>
EXPENDITURES						
Disbursed for charitable purposes						
Instruction and departmental research	18,716		18,716		18,716	11,693
Sponsored research	613,973		613,973		613,973	594,055
Public services & other	3,681		3,681		3,681	2,025
Academic support	64,364		64,364		64,364	77,207
Institutional support	60,204		60,204		60,204	35,665
Student financial assistance	123,547		123,547		123,547	97,800
Total disbursed for charitable purposes	<u>884,485</u>	<u>-</u>	<u>884,485</u>	<u>-</u>	<u>884,485</u>	<u>818,445</u>
Management and general	252,658		252,658		252,658	249,026
Fund raising	256,729		256,729		256,729	292,994
Insurance and annuity obligations	56,404		56,404	2,391	58,795	5,288
Total expenditures	<u>1,450,276</u>	<u>-</u>	<u>1,450,276</u>	<u>2,391</u>	<u>1,452,667</u>	<u>1,365,753</u>
INCREASE IN NET ASSETS	<u>197,112</u>	<u>(562,321)</u>	<u>(365,209)</u>	<u>982,517</u>	<u>617,308</u>	<u>369,030</u>
NET ASSETS - BEGINNING	\$ 664,295	2,717,646	3,381,941	1,955,888	\$ 5,337,829	\$ 4,968,799
NET ASSETS - ENDING	<u>\$ 861,407</u>	<u>2,155,325</u>	<u>3,016,732</u>	<u>2,938,405</u>	<u>\$ 5,955,137</u>	<u>\$ 5,337,829</u>

The accompanying notes to the financial statements are in integral part of this statement.

NEOUCOM FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2000

With Comparative Totals for the Year Ended June 30, 1999

	Total 2000	Total 1999
CASH FLOW FROM OPERATIONS		
Contributions	\$ 1,146,090	\$ 568,747
Interest and dividend income	131,590	160,677
Net travel advances	106	702
Disbursed for charitable purposes	(914,954)	(899,807)
Net cash from operating activities	362,832	(169,681)
CASH FLOW FROM INVESTMENTS		
Proceeds from sale/maturity of investments	105,944	177,581
Repayment of student loans	65,290	77,643
Purchase of investments	(2,339,333)	(96,135)
Disbursements for loans to students	(119,450)	(95,700)
Net cash from investing activities	(2,287,549)	63,389
CASH FLOW FROM FINANCING		
Proceeds from contributions restricted for:		
Investment in student loans	11,609	15,652
Investment in endowment	759,136	50,616
Investment subject to annuity agreements	5,000	6,750
Investment income restricted for reinvestment:		
Investment in student loans	28,329	21,702
Investment in endowment	64,877	1,165
Investment subject to annuity agreements	10,831	250
Net cash from financing activities	879,782	96,135
Net increase in cash and cash equivalents	(1,044,935)	(10,157)
CASH AND CASH EQUIVALENTS - BEGINNING	\$ 2,194,076	\$ 2,204,233
CASH AND CASH EQUIVALENTS - ENDING	\$ 1,149,141	\$ 2,194,076
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 617,308	\$ 369,030
Increase in accrued interest receivable	(12,184)	(2,464)
(Increase)/decrease in accounts receivable	7,684	(6,413)
(Increase)/decrease in pledges receivable	580,778	(161,627)
Increase in accrued liabilities	194,116	36,673
Non-cash contributions		(158,997)
Contributions restricted for long-term investment	(775,745)	(73,018)
Interest and dividends restricted for reinvestment	(51,146)	(23,117)
Realized gain on sale of investments	(84,808)	(183,106)
Unrealized gain on investments	(115,562)	28,070
Actuarial loss on annuity obligation	2,391	5,288
NET CASH FROM OPERATING ACTIVITIES	\$ 362,832	\$ (169,681)

The accompanying notes to the financial statements are in integral part of this statement.

**NEOUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2000**

1. SIGNIFICANT ACCOUNTING POLICIES

THE ORGANIZATION

The Foundation was incorporated on April 14, 1978, as a nonprofit tax-exempt corporation. The purpose of the Foundation is to raise funds for and make distributions to the Northeastern Ohio Universities College of Medicine (the "College"), and to assist in developing and increasing its resources to provide broader educational opportunities and services for charitable, educational, and scientific purposes.

The Foundation is governed by a volunteer Board of Trustees consisting of a maximum thirty-six members.

The Foundation has adopted the accrual method of accounting in accordance with generally accepted accounting principles for not-for-profit organizations.

BASIS OF PRESENTATION

The financial statements of the Foundation are presented in the following classifications:

Unrestricted Net Assets are the results of contributions, gains, and other support, the use of which is at the sole discretion of the Foundation's Board of Trustees. *Temporarily Restricted Net Assets* are the results of contributions, gains, and other support which are temporarily restricted to specific purposes by the donor or grantor. *Permanently Restricted Net Assets* are the results of contributions which are permanently restricted by the donor, the principal of which must remain unexpended in perpetuity.

CASH AND CASH EQUIVALENTS

For financial statement purposes, cash, certificates of deposit and investments with maturities of less than twelve months at date of purchase are combined. The Foundation has cash equivalents at financial institutions, which may, at times, exceed federally insured amounts.

INVESTMENTS

Investments are carried at fair market value. Realized and unrealized gains and losses are reflected in the Statement of Activities.

ANNUITY AND LIFE INCOME ACCOUNTS

The amount of the contribution recorded by the Foundation from annuity trust agreements is the fair value of the trust assets received less the present value of the estimated annuity payments. The liability is determined based on actuarial assumptions and is included in the liabilities section of the Statement of Financial Position.

REVENUE RECOGNITION

Unrestricted contributions of cash and other assets are recognized as revenue when they are received. All other material restricted contributions are recognized when pledged.

The Foundation receives donated services which are specialized skills that would need to be purchased if not provided by donation. Such in-kind donations are reported as contributions in the Statement of Activities.

FEDERAL INCOME TAXES

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, with the exception of taxable unrelated business income. The Foundation had no unrelated business income in fiscal 2000 and 1999.

USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

COMPARATIVE FINANCIAL STATEMENTS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 1999 from which the summarized information was derived. Certain prior year amounts have been reclassified to conform with current year presentation.

NEUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENT (CONTINUED)

2. PLEDGES

Promises to give to the Foundation are recorded as an asset when the pledge is received. The net present value of outstanding pledges discounted at five percent (5%), as of June 30, 2000 and 1999 are due as follows:

	<u>Total</u> <u>06-30-00</u>	<u>Total</u> <u>06-30-99</u>
Less than one year	\$174,732	\$582,808
One to five years	<u>104,050</u>	<u>276,752</u>
Total outstanding pledges with no allowance for uncollectible pledges	<u>\$278,782</u>	<u>\$859,560</u>

The temporarily restricted outstanding pledges are for the Foundation's Campaign for Medical Research which started in 1995, and the Read Distance Education Center. The purpose of the Campaign for Research was to raise funds for the purchase of research equipment, demonstration research, and administrative support for collaborative research. At June 30, 2000, the sum of \$2,558,751 had been collected toward the goal, with a sum of \$ 190,150 remaining in outstanding pledges.

Based on actual collections experience for the Campaign for Medical Research and Read Distance Education Center, the Foundation's management has determined that no provision for uncollectible pledges is needed.

3. INVESTMENTS

Following is a summary of investments at June 30, 2000 and 1999:

	<u>2000</u>		<u>1999</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Long-term investments				
Bond	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Permanently restricted cash and other current assets	208,396	208,396	106,387	106,387
Money market funds	244,352	244,352	86,994	86,994
Mutual fund equities	2,695,597	2,959,119	1,058,746	1,191,032
Mutual fund U.S. government obligation	415,948	409,277	551,657	545,922
Mutual fund foreign government securities	118,014	122,055	-	-
Mutual fund corporate bonds	<u>371,246</u>	<u>368,003</u>	<u>-</u>	<u>-</u>
Total long-term investments	<u>\$ 4,054,553</u>	<u>\$ 4,312,202</u>	<u>\$ 1,804,784</u>	<u>\$ 1,931,335</u>

NEUCOM Foundation is the owner and sole beneficiary of a life insurance policy in the amount of \$500,000, which insures the life of a Foundation contributor. The contributor has indicated his intention to make future contributions to the Foundation in the necessary amounts for payment of premiums for the policy. The agreement is not considered as a pledge, due to the fact that the contributor is under no obligation to make future contributions to the Foundation under the agreement. Upon death of the insured, the life insurance proceeds are to be used to further fund the endowed chairs in anatomy, or if already fully funded, the proceeds may fund other Foundation projects at its Board's discretion. On June 30, 2000, the life insurance policy had a cash value of \$16,957, with a cash surrender value of zero dollars.

4. STUDENT NOTES RECEIVABLE

The Foundation has established a revolving loan fund that disburses funds at a rate of 8%. The Foundation has experienced a zero default rate and therefore, management has not recorded an allowance for doubtful loans.

5. GIFT ANNUITY OBLIGATIONS

The Foundation is obligated under various annuity contracts, whereby donors have contributed cash to the Foundation with agreement that the donor shall be sole recipient of annual annuity payments. These annual payments, currently totaling \$1,105 per year, shall terminate on the last payment date preceding the death of the donor. The discount rates used to estimate the net present value of the obligations of June 30, 2000 and 1999 was 8%.

**NEUCOM FOUNDATION
NOTES TO FINANCIAL STATEMENT (CONTINUED)**

6. UNRESTRICTED BOARD DESIGNATED FUNDS

The Foundation's Board of Trustees has designated the following net assets to be available for charitable purposes benefitting the College's faculty, staff and students in the following educational and general functional categories:

	<u>2000</u>	<u>1999</u>
Instruction and departmental research	\$ 8,675	\$ 0
Separately budgeted research	30,594	0
Public service	29	0
Academic support	576	40,933
Institutional support	14,606	5,499
Student scholarships and other student aid	22,054	23,051
Student loan funds	15,025	14,428
Total board designated net assets, June 30	<u>\$91,559</u>	<u>\$83,911</u>

7. TEMPORARILY RESTRICTED NET ASSETS

All temporarily restricted net assets are available for charitable purposes benefitting the College's faculty, staff and students in the following educational and general functional categories:

	<u>2000</u>	<u>1999</u>
Instruction and departmental research	\$87,368	\$99,772
Separately budgeted research	1,150,768	1,713,080
Public services	490	490
Academic Support	510,894	507,483
Institutional Support	13,591	13,391
Student scholarships and other student aid	392,214	383,430
Total temporarily restricted net assets, June 30	<u>\$2,155,325</u>	<u>\$2,717,646</u>

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to:

	<u>2000</u>	<u>1999</u>
Student Loans	\$519,970	\$479,627
Endowments requiring earnings only be made available for:		
Student scholarships and awards	1,218,614	701,627
Anatomy endowed chair	922,486	502,500
Student loans	98,186	97,436
Separately budgeted research	79,197	76,236
College employee awards	24,623	29,391
Deferred gift annuity	75,329	69,071
Total permanently restricted net assets, June 30	<u>\$2,938,405</u>	<u>\$1,955,888</u>

9. RELATED PARTY TRANSACTIONS

For the years ended June 30, 2000 and 1999, the Foundation made disbursements of \$884,485 and \$818,445, respectively, in direct support of charitable, educational, and scientific purposes benefitting the College and its students. In addition, the Foundation granted loans of \$119,450 and \$95,700 to college students for the years ended June 30, 2000 and 1999.

The Foundation provided reimbursements of \$76,020 and \$36,113, respectively, to the College for management, fund raising, and accounting services support during the year ended June 30, 2000 and 1999. Amounts for such services provided by the College which are not reimbursed by the Foundation are reported as in-kind contributions in the Statement of Activities. The College's in-kind support for these services was valued at \$341,206 and \$427,695, respectively, for the year ended June 30, 2000 and 1999.

Certain Foundation Board Members have affiliations with financial institutions with which the Foundation has deposit and investment accounts.

Board of Trustees
NEOUCOM Foundation

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards

We have audited the financial statements of NEOUCOM Foundation as of and for the year ended June 30, 2000, and have issued our report thereon dated November 4, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether NEOUCOM Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered NEOUCOM Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have communicated to management of NEOUCOM Foundation in a separate letter dated November 4, 2000.

This report is intended solely for the information and use of the Board of Trustees, management of NEOUCOM Foundation and the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Hausser & Taylor LLP

Cleveland, Ohio
November 4, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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NORTHEASTERN OHIO UNIVERSITIES COLLEGE OF MEDICINE FOUNDATION

PORTAGE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2001**